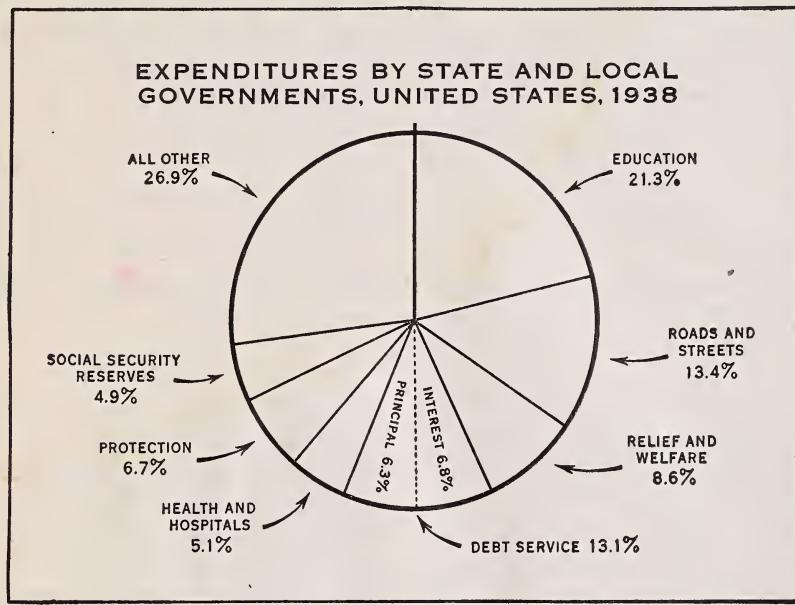


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State and Local Government Finance in Wartime



BAE 42210

FIGURE 1.—Costs of schools and roads have always loomed large among the expenditures of State and local governments. What changes in the distribution of expenditures will the war cause?

What are the questions that local groups of farmers and others should raise about State and local policies and programs in wartime? What changes will there be in demands upon budgets? What changes should there be in services rendered? Just

what are the special problems facing State and local governments in times of war? Some of the problems that can well receive attention are considered here.

As all-out war demands maximum efficiency in the use of our resources,

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it naturally follows that State and local governments too must get on a war footing. Anything that does not directly contribute toward winning the war should be carefully scrutinized. With a national war budget that is frequently being revised upward as new needs arise, it is obvious that at no place in our economic or political life can we operate on a business-as-usual basis.

To suggest a reexamination of activities does not necessarily imply that citizens should press their State and local governments to abandon extensively what they are doing at present. It does imply that they should point out that no function or activity is justified if it interferes with the full use of our national resources for waging the war. If local governments can efficiently carry on certain types of civilian defense activity they should be encouraged to do so. At the same time it is important that the normal functions of these governments be carried on with maximum efficiency. If the organization or operation of any activity is in any way inefficient and wasteful it is even more important now than it is in peacetime that the condition be corrected. Better management, in many cases, can make it possible for local governments to maintain high standards for normal services and at the same time to carry on certain war activities without increasing total expenditures.

When taxpayers evaluate existing functions, attention must be given not only to the efficiency with which the function is performed but also to its need and desirability under war

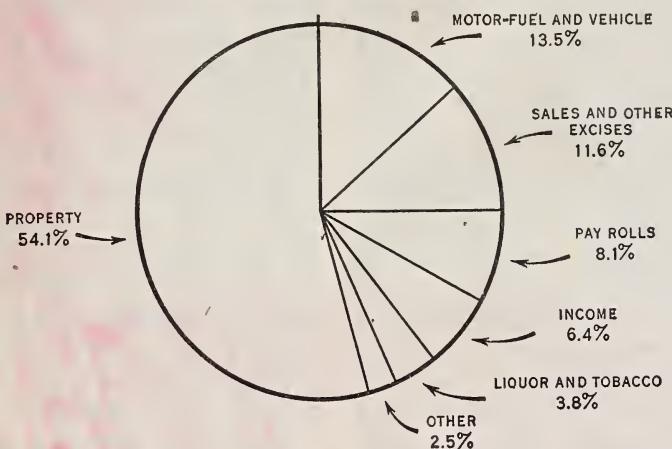
conditions. Certainly, most sanitation and public-health programs should be continued. Manpower must be kept efficient, and this would be impossible if epidemics were permitted to run rampant. Schools must continue, even though perhaps stripped of nonessentials. Increased emphasis may well be placed on vocational training, particularly where shortages of skilled workers in war industries exist. Roads must be maintained on at least a minimum basis to provide essential transportation and to avoid the costly deterioration that is inevitable if the ravages of climate and weather are not repaired. But in general, it is highly desirable that all expenditures which are postponable by any reasonable standards should be delayed.

Construction Programs.

An order of the War Production Board prohibits virtually all construction except that considered essential to the war. Much construction will be eliminated under this order because of the drain on financial, material, and labor resources needed for war purposes. If they wish to be in line, farmers and other citizens will insist that their State and local governments be extremely conservative in applying for the special authorizations required under the order.

Citizens will not demand and governments will not start construction programs until apparent needs have been reexamined to see if they really are so important as at first believed. Maximum use of present facilities is

STATE AND LOCAL TAX REVENUES UNITED STATES, 1938



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FIGURE 2.—Property taxes probably will continue to be the principal source of State and local revenues, but there may be changes in the relative importance of some of the other kinds of taxes.

a first essential. Ingenuity in finding ways of more fully utilizing existing facilities often may solve a problem. In the case of schools, especially where increased school attendance seems likely to be temporary, a more widespread use of two shifts for classes might be more desirable than extensive new construction. In line with present policies, neither manpower nor materials should be expended on a building program during the emergency if well-planned repair programs can meet requirements at all satisfactorily.

Highway-construction programs need special study in the light of wartime needs and the availability of men and materials. Some road construction probably can be post-

poned without difficulty. Obviously it would be unwise to curtail maintenance work to the point of interfering with essential transportation and allowing too large an accumulation of future repair bills. Some deterioration must be accepted as part of the cost of the war, but so far as feasible it should be arrested before it handicaps vital transportation.

Where new war plants have been built or where plants have been expanded for war work, it often is necessary to provide access roads both for the plants and for the communities in which the employees live. In general, work on strategic highways and access roads should take precedence over all other. Expenses incurred for such construction may

have a limited effect on State and local budgets because of the Federal appropriations which have been made, and will probably continue to be made, to cover some of the unusual costs involved. But planning for such roads may be partly a local function, and insofar as possible, local agencies should take into account the requirements and circumstances that are to be expected during coming years. In planning the type of construction, consideration should be given to the various types of low-cost surfaces, to reduce current outlays and to reduce the loss in case the character of the community is changed during the post-war period, or in case it is abandoned altogether.

Financial Programs.

Farmers may find that during the war the financial programs of their State and local governments are affected more than ever by events outside their control. Strangely enough this situation is due in part to the fact that tax systems are now more diversified than at any time in the past. When property taxes dominated the revenues, the tax base, particularly for local governments, was known and was fixed at the beginning of the year, so it was a simple matter to decide upon a rate that would bring in the revenue required for the activities that appeared in the budget. But for numerous taxes now in existence, such as those on retail sales, income, and gasoline, the extent of the base can only be approximated, in advance. Therefore the legislative bodies usually define the base and then fix rates

that will stay in effect for extended periods regardless of variations in the budget in the meantime. Administrative officials then must operate within these restrictions. For example, they can collect certain revenue only as sales at retail occur. The extent of such sales during a given year in a given State may be so greatly influenced by general economic conditions as not to be subject to even reasonable approximation in advance. Because of wartime developments, during the next few years there may be fluctuations in revenues that are not within the control of local governing bodies.

Numerous examples can be cited as to the possibilities that are likely to develop. Speeding up of war production has already increased the flow of national income to a rate exceeding 100 billion dollars a year. This may well expand sharply the income-tax revenues of those States that tax incomes, without any changes in the rate structure.

The situation with regard to State sales taxes is not so clear. The increased national income would naturally lead to more sales of the goods that are subject to the retail sales taxes, but the manufacture of many such items has been curtailed. Normally, curtailed production would mean higher prices, but price ceilings are being applied to many items. Also it is not yet clear just how much consumer purchasing power may be modified by Federal taxes and by the purchase of war bonds by the people of the country. The extension of the rationing plan and of price ceilings will affect civilian consumption

and so will affect tax revenues. For example, the rationing of tires, gasoline, and automobiles will reduce the automotive tax revenues. Income from gasoline taxes undoubtedly will fall off first and most. Such revenue losses will affect State and local governments to varying degrees, depending on the distribution of the proceeds as among various units of government.

In analyzing the financial programs of their State and local governments, farmers must recognize the possibility of some increased demands on governmental budgets. Some will be caused by new functions associated with the war. Others may arise because of increased costs of carrying on old functions. Sometimes salary adjustments will seem necessary because of the loss of personnel to the military services and to war industries. But in some cases higher salaries will attract and hold more efficient employees and permit adequate service with a smaller force. Costs of many materials and supplies may be higher than before although the price controls may restrict the increases.

Throughout their planning, citizen groups and State and local governments should consider both the war and the post-war potentialities. During the period of the war every effort should be made to restrict expenditure if it can be done wisely, so that the widest practicable margin between current receipts and expenditures may be developed. Any surpluses that accumulate can be used appropriately in either of two ways. The governmental unit can pay off

existing debts or can invest in Federal war bonds.

The legal possibilities for accumulating and using surpluses will vary. Some local and State governments will be able to place the excess receipts in sinking funds and invest them in Federal securities. In other cases the most feasible plan may be to repurchase their own obligations and retire them. At the same time that old debt is being liquidated every effort should be made to decrease or eliminate new borrowing by local governments. Regardless of the particular plan followed, the resulting improvement in financial position will be an advantage during the post-war period when borrowing may again be necessary to finance capital improvement or other programs so that the transition from a war economy to a peace economy may be cushioned.

A program like this could also play its part in the general field of price control. The maintenance of State and local tax levies during the war period would hold back money which otherwise might contribute to inflationary trends. Moderating the increase of purchasing power of individuals tends to keep prices down when there is widespread scarcity of supplies of consumer goods. The excess receipts obtained by local governments can be used in helping to finance the war. If existing debts are paid by local governments, the investors who receive the money can in turn buy the war securities sold by the Federal Government. Or, if there are no legal inhibitions, this step would be eliminated if govern-

mental bodies invested their funds directly in Federal securities.

In general, farmers and other local groups should insist that their State and local governments plan their activities to avoid, insofar as possible, any competition with the war requirements of the Federal Government for the available supplies of manpower, materials, and financial resources. Functions that contribute directly to the war such as certain phases of air-raid protection, can be undertaken. Every possible device

should be used to increase the efficiency of operations. Financial programs should be planned so as to contribute to anti-inflationary tendencies, at the same time that they are aiding the Federal Government in financing the war. And finally as a consequence of proper planning, citizens will find that their State and local governments are in positions that will enable each of these governments to participate more fully in the rehabilitation and readjustment that must follow the war.



